

Mr. Mitch Clary, Director of Reimbursement
Pruitt Corporation
Post Office Box 1210
Toccoa, Georgia 30577

Re: AC# 3-HCH-J5 – Health Care of Hilton Head, Inc. d/b/a Health Care
of Hilton Head

Dear Mr. Clary:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

**HEALTH CARE OF HILTON HEAD, INC.
D/B/A HEALTH CARE OF HILTON HEAD**

HILTON HEAD, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1996
AC# 3-HCH-J5**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1996	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS OCTOBER 1, 1996 THROUGH MAY 31, 1997	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1995	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

June 12, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Health Care of Hilton Head, Inc. d/b/a Health Care of Hilton Head, for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with the standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Health Care of Hilton Head, Inc. d/b/a Health Care of Hilton Head, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contracts between the Department of Health and Human Services and Health Care of Hilton Head, Inc. d/b/a Health Care of Hilton Head dated as of October 1, 1994 and November 1, 1996 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
June 12, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

HEALTH CARE OF HILTON HEAD
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1996
AC# 3-HCH-J5

	<u>10/01/96-</u> <u>05/31/97</u>
Interim reimbursement rate (1)	\$88.10
Adjusted reimbursement rate	<u>86.60</u>
Decrease in reimbursement rate	\$ <u><u>1.50</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997

HEALTH CARE OF HILTON HEAD
Computation of Adjusted Reimbursement Rate
For the Contract Periods October 1, 1996 Through May 31, 1997
AC# 3-HCH-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$ -	\$43.82	\$39.84	\$39.84
Dietary	<u>-</u>	<u>9.75</u>	<u>9.46</u>	<u>9.46</u>
Subtotal	<u>\$ -</u>	53.57	49.30	49.30
Laundry/Housekeeping/Maint.	\$ -	7.79	7.32	7.32
Administration & Med. Rec.	<u>-</u>	<u>8.87</u>	<u>8.60</u>	<u>8.60</u>
Subtotal	<u>\$ -</u>	70.23	<u>\$65.22</u>	65.22
<u>Costs Not Subject to Standards:</u>				
Utilities		2.83		2.83
Special Services		.29		.29
Medical Supplies & Oxy.		4.62		4.62
Taxes and Insurance		1.58		1.58
Legal Fees		<u>.12</u>		<u>.12</u>
TOTAL		<u>\$79.67</u>		74.66
Inflation Factor (4.90%)				3.66
Cost of Capital				8.03
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For Gen. Serv. & Dietary				-
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				-
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$86.60</u>

HEALTH CARE OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-HCH-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,371,253	\$ - -	\$ 5,052 (9) 432 (9)	\$1,365,769
Dietary	304,566	1,525 (7)	2,214 (9)	303,877
Laundry	64,177	-	423 (9)	63,754
Housekeeping	124,653	794 (11)	1,271 (9) 784 (12)	123,392
Maintenance	56,454	344 (11)	679 (9) 37 (10) 337 (12)	55,745
Administration & Medical Records	362,711	67 (7) 74 (7) 344 (11)	81,804 (2) 415 (9) 179 (9) 4,000 (10) 272 (12)	276,526
Utilities	104,811	637 (11)	16,720 (6) 534 (12)	88,194
Special Services	11,138	-	2,066 (9)	9,072
Medical Supplies & Oxygen	165,266	-	8,210 (7) 12,970 (8)	144,086
Taxes & Insurance	49,929	296 (11)	789 (10) 291 (12)	49,145
Legal Fees	7,834	9 (11)	4,107 (10) 5 (12)	3,731

HEALTH CARE OF HILTON HEAD
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-HCH-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Cost of Capital	250,270	635 (3) 9,983 (4) 842 (5) <u>815 (11)</u>	5,570 (1) 4,008 (10) 539 (12) <u>2,112 (13)</u>	250,316
Subtotal	2,873,062	16,365	155,820	2,733,607
Ancillary	13,354	-	-	13,354
Non-Allowable	365,386	5,570 (1) 81,804 (2) 10,662 (6) 12,970 (8) 12,731 (9) 12,941 (10) 2,762 (12) <u>2,112 (13)</u>	635 (3) 9,983 (4) 842 (5) 3,239 (11)	492,239
Total Operating Expenses	<u>\$3,251,802</u>	<u>\$157,917</u>	<u>\$170,519</u>	<u>\$3,239,200</u>
TOTAL PATIENT DAYS	<u>31,167</u>	<u>-</u>	<u>-</u>	<u>31,167</u>
TOTAL BEDS	<u>88</u>			

HEALTH CARE OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-HCH-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 37,815	
	Other Equity	171,895	
	Nonallowable	5,570	
	Fixed Assets		\$209,710
	Cost of Capital		5,570
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	81,804	
	Administration		81,804
	To disallow related party interest expense HIM-15-1, Section 218		
3	Loan Cost	15,880	
	Cost of Capital	635	
	Accumulated Amortization - Loan Cost		8,046
	Other Equity		7,834
	Nonallowable		635
	To record loan cost and related amortization applicable to prior owner State Plan, Attachment 4.19D		
4	Cost of Capital	9,983	
	Nonallowable		9,983
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
5	Cost of Capital	842	
	Nonallowable		842
	To adjust amortization expense to comply with capital cost policy State Plan, Attachment 4.19D		
6	Retained Earnings	6,058	
	Nonallowable	10,662	
	Utilities		16,720
	To properly charge expense applicable to the prior period and adjust expense to allowable HIM-15-1, Sections 2302.1 and 2304		

HEALTH CARE OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-HCH-J5

ADJUSTMENT		<u>DEBIT</u>	<u>CREDIT</u>
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>		
7	Retained Earnings	6,544	
	Dietary	1,525	
	Administration	67	
	Medical Records	74	
	Medical Supplies		8,210
	To properly charge expense applicable to the prior period and reclassify expense to the proper cost center HIM-15-1, Section 2302.1 DH&HS Expense Crosswalk		
8	Nonallowable	12,970	
	Medical Supplies		12,970
	To disallow expense due to lack of documentation HIM-15-1, Section 2304		
9	Nonallowable	12,731	
	Nursing		5,052
	Restorative		432
	Dietary		2,214
	Laundry		423
	Housekeeping		1,271
	Maintenance		679
	Administration		415
	Medical Records		179
	Special Services		2,066
	To adjust payroll tax expense to allowable HIM-15-1, Section 2304		
10	Nonallowable	12,941	
	Maintenance		37
	Administration		4,000
	Legal		4,107
	Taxes and Insurance		789
	Cost of Capital		4,008
	To adjust home office cost allocation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

HEALTH CARE OF HILTON HEAD
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-HCH-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Housekeeping	794	
	Maintenance	344	
	Administration	344	
	Legal	9	
	Utilities	637	
	Taxes and Insurance	296	
	Cost of Capital	815	
	Nonallowable		3,239
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
12	Nonallowable	2,762	
	Housekeeping		784
	Maintenance		337
	Administration		272
	Legal		5
	Utilities		534
	Taxes and Insurance		291
	Cost of Capital		539
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
13	Nonallowable	2,112	
	Cost of Capital		2,112
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	<u>\$396,109</u>	<u>\$396,109</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

HEALTH CARE OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-HCH-J5

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.0472</u>	<u>2.0472</u>	
Deemed Asset Value (Per Bed)	31,973	31,973	
Number of Beds	<u>44</u>	<u>44</u>	
Deemed Asset Value	1,406,812	1,406,812	
Improvements Since 1981	88,813	21,568	
Accumulated Depreciation at 9/30/95	<u>(535,852)</u>	<u>(257,414)</u>	
Deemed Depreciated Value	959,773	1,170,966	
Market Rate of Return	<u>0.070</u>	<u>0.070</u>	
Total Annual Return	67,184	81,968	
Return Applicable to Non-Reimbursable Cost Centers	(989)	(1)	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	66,195	81,967	
Depreciation Expense	37,451	62,083	
Amortization Expense	635	5,613	
Capital Related Income Offsets	(1,545)	(1,544)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(538)</u>	<u>(1)</u>	<u>Total</u>
Allowable Cost of Capital Expense	102,198	148,118	\$250,316
Total Patient Days (Minimum 97% Occupancy)	<u>15,584</u>	<u>15,583</u>	<u>31,167</u>
Cost of Capital Per Diem	\$ <u>6.56</u>	\$ <u>9.51</u>	\$ <u>8.03</u>

HEALTH CARE OF HILTON HEAD
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-HCH-J5

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 8.11	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$12.10</u>	<u>\$9.51</u>
Reimbursable Cost of Capital Per Diem		\$8.03
Cost of Capital Per Diem		<u>8.03</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>